

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01 /100 W
-----180322Z 080359 /62

R 171240Z MAR 77
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC 1690

C O N F I D E N T I A L TEHRAN 2428

E.O.11652: GDS
TAGS: ENRG, IR
SUBJ: THOUGHTS OF NIOC OFFICIAL REGARDING OIL PRICE
INDEXATION

1. IN A RECENT CONVERSATION BETWEEN REZA FALLAH, DEPUTY MANAGING DIRECTOR OF NIOC, AND AN EMBOFF THE NIOC OFFICIAL DESCRIBED THE BROAD OUTLINES OF A PROPOSAL HE HAS DEVELOPED FOR INDEXATION OF OIL PRICES. FALLAH MADE IT CLEAR THAT HIS IDEAS RESULTED FROM HIS PERSONAL APPRECIATION OF WHAT WAS POSSIBLE AND DESIRABLE IN REGARD TO INDEXATION AND DID NOT REFLECT NIOC OR GOI POLICY. NEVERTHELESS, HIS THOUGHTS ARE INTERESTING AND, FOR AN IRANIAN OFFICIAL, SURPRISING.

2. BASICALLY, FALLAH RECOMMENDS THAT OIL PRICES BE LINKED TO THE INCREASE IN THE COST OF INDUSTRIAL GOODS EXPORTED BY DEVELOPED COUNTRIES, AS MEASURED BY IMF INDEXES. FALLAH FREELY ACKNOWLEDGED THAT DOMESTIC INFLATION IN THE OIL EXPORTING COUNTRIES HAD BEEN CONSIDERABLY HIGHER THAN THE INFLATION RATES EXPERIENCED IN DEVELOPED COUNTRIES, AND THAT IT WOULD BE UNREALISTIC AND "UNFAIR" TO LINK OIL PRICES WITH DOMESTIC INFLATION GENERATED BY THE OIL EXPORTERS THEMSELVES. FALLAH, UNLIKE THE ECONOMIC COMMISSION BOARD OF OPEC, EXPRESSED SATISFACTION WITH THE IMF INDEXES. HE ALSO SAID THAT OPEC MEMBERS COULD HAVE FAR GREATER
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CONFIDENCE IN THE ACCURACY OF THE IMF INDEXES THAN OIL IMPORTERS COULD EVER HAVE IN INDEXES PREPARED BY OPEC.

3. EMBOFF ASKED FALLAH FOR HIS VIEWS AND THOSE OF THE GOI IN REGARD TO OIL PRICE INDEXATION AND THE COSTS OF SERVICES AND/OR MILITARY GOODS IMPORTED BY COUNTRIES SUCH AS IRAN. THE NIOC OFFICIAL SAID THAT SUCH ISSUES COULD WELL BE A PROBLEM BUT THAT

HIS PROPOSAL WAS GENERAL IN NATURE AND DID NOT ADDRESS THESE SPECIFIC ISSUES. HOWEVER, HE DID SPECULATE IN A RATHER VAGUE WAY THAT THE GOI MIGHT WELL INSIST THAT PRICES OF MILITARY IMPORTS OF OIL EXPORTERS BE FACTORED INTO ANY INDEXATION SCHEME.

4. DURING MID-FEBRUARY, FALLAH MET WITH THE FORMER U.S. AMBASSADOR TO SAUDI ARABIA, JAMES AKINS, WHILE THE LATTER WAS VISITING TEHRAN. ACCORDING TO FALLAH, HE AND AKINS DISCUSSED INDEXATION AND FOUND THEMSELVES IN SUBSTANTIAL AGREEMENT ON THE DESIRABILITY FOR INDEXATION AND ON THE BROAD OUTLINES OF HOW IT SHOULD BE IMPLEMENTED.

5. COMMENT: FALLAH IS AN EXPERIENCED AND RESPECTED OIL MAN, AND HIS THOUGHTS ON INDEXATION WILL ALMOST CERTAINLY BE CONSIDERED AT HIGHER LEVELS OF THE GOI. HOWEVER, IT REMAINS TO BE SEEN IF THE GOI WILL BE WILLING TO ADOPT AN INDEXATION SCHEME BASED ON IMF EXPORT PRICE INDEXES; AND WE SERIOUSLY DOUBT THAT GOI WOULD WILLINGLY ACCEPT EXCLUSION OF MILITARY GOODS FROM SUCH AN INDEX.
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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